

# MOODY'S

## INVESTORS SERVICE

### New Issue: Moody's assigns Aa1 to Idaho Bond Bank Authority's revenue bonds; outlook is stable

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Global Credit Research - 19 Mar 2014

#### **\$407 million of debt affected**

IDAHO BOND BANK AUTHORITY  
Bond Banks/Pool Programs  
ID

#### **Moody's Rating**

ISSUE	RATING
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Revenue Bonds, Series 2014B-2 (Federally Taxable)	Aa1
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<b>Sale Amount</b>	\$3,615,000
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<b>Expected Sale Date</b>	03/26/14
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<b>Rating Description</b>	Revenue: Other
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Revenue Bonds, Series 2014B-1 (Tax-Exempt)	Aa1
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<b>Sale Amount</b>	\$2,245,000
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<b>Expected Sale Date</b>	03/26/14
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<b>Rating Description</b>	Revenue: Other
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#### **Moody's Outlook** STA

#### **Opinion**

NEW YORK, March 19, 2014 --Moody's Investors Service has assigned a Aa1 rating to the Idaho Bond Bank Authority Revenue Bonds, Series 2014B. At this time, Moody's affirms the Aa1 rating on the Authority's bonds outstanding in the amount of approximately \$401 million. Proceeds from the current offering will be loaned to one participant to repay creditors as required in the district's chapter 9 filing, restructure and refund previously issued debt and purchase equipment and software. The current offering is secured by the district's full faith and credit including a dedicated and separate unlimited ad valorem property tax pledge which was approved by 80% of district voters. Additional security is provided by the state's intercept mechanism whereby intergovernmental revenues due to participants will be transferred directly to the trustee to pay debt service if payments have not been received sufficiently in advance of debt service payment dates.

Importantly, the bonds are further secured by a pledge of the state's sales tax revenues that will be transferred directly to the trustee for debt service if full and timely payments for debt service from borrowers have not been received within five days of the payment date.

#### **SUMMARY RATING RATIONALE**

The Aa1 rating reflects the broad pledge of the State of Idaho's (Aa1 issuer/stable) sales tax revenues that provide ample coverage for debt service. The rating also considers the state intercept mechanism and other satisfactory payment mechanisms for debt service.

The stable rating outlook anticipates continued solid coverage of outstanding debt service by sales tax revenues, and continued improvement in state sales tax collections. Subsequent reviews will focus on the frequency of future borrowing and the level of coverage provided by state sales tax revenues.

#### **STRENGTHS**

- Continued improvement in state sales tax revenues
- Multiple layers of security promote full and timely payment of debt service

## CHALLENGES

- Moderate borrower concentration
- State's sales tax pledge also backs two school bond guaranty programs on a parity basis, resulting in further leveraging of a primary state revenue stream

## DETAILED CREDIT DISCUSSION

### RECENT DEVELOPMENTS

Since Moody's review of the Authority's rating in mid-2013 and more recently in January 2014, fiscal 2013 state total sales tax collections increased 8.4% over the prior year which represents the largest annual increase in the last five years. Additionally, recently revised budgeted and projected collections indicate state sales tax collections will increase nearly 5% (2014) and 7% in 2015.

The current offering of \$5.86 million will be loaned to one new participant to the program - the Lost Rivers Hospital District. The district's loan obligation represents a modest 1.4% of IBBA debt outstanding. The district has pledged its full faith and credit including an unlimited ad valorem property tax pledge. In November 2013, 80% of voters approved the bond election and proceeds will be used to repay creditors as required in the district's chapter 9 filing, restructure and refund previously issued debt and purchase equipment and software.

After several years of deteriorated financial operations, on December 9, 2010 the district filed a Plan of Reorganization under Chapter 9 of the Bankruptcy Code. The plan was confirmed on May 26, 2011. Importantly, all payments on the district's previously issued General Obligation Refunding and Improvement Bonds, Series 2003A were made on time and in full in accordance with the original terms of the bonds. Although November 2013 year-to-date monthly results (unaudited) indicate improved financial operations the district will face significant pressures to dramatically improve its fiscal health over the long-term.

Given the significant hardships faced by the district, the Authority prudently required the district to implement additional payment and timing safeguards unique to the current borrowing. First, the district entered into disbursement agreements with both Butte and Custer counties such that each county will remit directly all revenue collected on behalf of the district, including property taxes dedicated for debt service, to Zions First National Bank; Moody's views this 'lockbox' feature as a credit strength. Secondly, Zions Bank, acting as Custodian for the district has agreed to pay principal and interest payments on behalf of the district prior to sending any remaining revenues to the district. Finally, the Custodian Agreement also requires Zions to hold a debt service reserve fund on behalf of the district to further ensure timely repayment of the bonds in the event there are insufficient funds available. The debt service reserve fund will be cash funded with a portion of bond proceeds equal to 50% of MADS.

Although the district also has state-shared revenues which could be intercepted in the event property taxes are insufficient to pay debt service, these revenues satisfy only a very small portion of annual debt service. Moody's views the state's gross pledge of sales taxes and the sound timing requirements as critical to the rating.

### BOND BANK AUTHORIZED BY STATE'S CONSTITUTION AND VOTERS

The Idaho Bond Bank program was established by a series of legislative actions and voter approval. The legislature approved an amendment to the constitution and voters approved creation of the Idaho Bond Bank and the pledge of state sales taxes in 2000. The program was authorized in 2001 by the Idaho Bond Bank Authority Act that to provide an attractive mechanism for financing the infrastructure needs of local governments. Under the program, each series of bonds is secured by pledges of the underlying borrowers. The security for each underlying borrower's loan agreement is typically either a general obligation ad valorem property tax, property tax assessments, certificates of participation, or net enterprise net revenues. The bond bank program includes a credit review process and minimum credit criteria for potential borrowers that involves confirming the legal authority of their pledge to incur debt, evaluating their ability to meet debt service coverage thresholds, and reviewing the operating impact of debt issuance on potential borrowers. Outstanding loans issued through the bond bank total approximately \$407 million, post-issuance of the 2014B Bonds.

### SATISFACTORY DEBT PAYMENT MECHANISMS INCLUDE SIZABLE COVERAGE FOR DEBT SERVICE BY

## STATE SALES TAX REVENUES

The program's intercept mechanism and the state's sales tax pledge have never been required to support the bond bank's debt service payments, and program provisions provide multiple layers of security to promote full and timely payment of debt service. Debt service payments for the Authority's bonds are due semiannually in March and September, and borrowers are required to pay the bond bank's trustee 15 days prior to the debt service due date. If a borrower's debt service payment has not been received within 10 days of the payment date, the trustee is required to notify the state treasurer to implement intercept procedures, if applicable. If funds are still insufficient for debt service within five days of the payment date, the state treasurer will transfer monies representing state sales tax collections from the state's general fund account sufficient to make-up any remaining shortfall for debt service.

The state's economic recovery appears to be in a solid position for a strong 2014. As of December 2013, the state's unemployment level was 5.5%, its lowest in several years and below that of the nation (6.5%). Agriculture and continued recovery in the housing market are expected to be primary contributors to the state's recovery while the healthcare and manufacturing sectors will also aid state economic growth. Similarly, state sales tax revenues continue to improve after recording a substantial decline in 2009 (11.8%) followed by a smaller drop of 4.3% in 2010 due to the national recession. Collections then began to rebound beginning in fiscal 2011 (3.4% increase), followed by larger improvements in fiscal 2012 (4.2%) and fiscal 2013 (8.4%). Preliminary estimates from the state indicate the current fiscal year will see collections grow by 4.6% followed by a projected 7.1% increase in fiscal 2015.

The state's sales tax revenues provide additional bondholder security with a pledge that is subordinate only to the state's tax anticipation notes (rated MIG 1) issued in annual amounts of as much as \$500.0 million in recent years. However, the state's notes are secured by additional revenue streams that include individual and corporate income taxes as well as sales tax receipts for the fourth quarter of the fiscal year, along with the state's full faith and credit pledge. Also, the pledge of state sales tax revenues for bond bank obligations is on parity with the state's two School Bond Guaranty Programs that currently provide credit enhancement to an estimated \$784 million of outstanding general obligation bonds issued by school districts (guaranty programs are rated Aaa/STA and Aa1). Based upon fiscal 2013 data, gross state sales tax revenues provided an ample 37.0 times coverage of the bond bank's peak debt service, post-issuance, and a still sizable 10.6 times coverage of peak combined debt service for bond bank loans and school districts' guaranteed debt. Though continued improvement in sales tax revenues should improve coverage levels, additional issuances from the bond bank and school bond guarantees will likely dilute debt service coverage levels but are nonetheless expected to remain strong in the medium-term.

In addition to policy changes mentioned above, the Idaho Bond Bank Authority Board recently adopted a policy that places a limit on the amount of debt secured by the bond bank and both School Bond Guaranty Programs. The limit caps bond bank issuance at the point maximum annual debt service of the programs reaches 20% of the most recently audited state sales tax collections. Similarly, in April 2013 the Idaho School Bond Guaranty program adopted a policy that essentially mirrors the Authority's debt capacity policy. We view these limitations as a prudent step in governing the pace and amounts of future bond bank issuances, although approaching this cap over the long-term would result in significant leveraging of the state's primary revenue source. However, a significant mitigant is that a large portion of the underlying borrowers have secured their Authority loans with an unlimited property tax pledge.

## BOND BANK PROVIDES INDIVIDUAL LOANS TO BORROWING MUNICIPALITIES

Each participant in the program is required to execute a loan agreement with the bond bank to provide funds and to make payments on their respective loans. There are no cross-default provisions across the loan agreements, so each participant will not be liable for the failure of any other municipality to make their respective loan payments. To enhance the bond bank's governance, the Authority's board continues to enforce improved disclosure requirements for underlying borrowers.

The state requires bond bank participants to meet certain standards that strengthen the security of their respective pledges. Ad valorem property tax pledges require local voter approval. Certificate of participation require judicial confirmation or voter approval prior to issuance, and must have a first lien security on pledged revenues. Enterprise revenue pledges are required to have a first lien pledge of net revenues, along with rate covenants and additional bonds tests of 1.25 times net revenues. Borrowers from the bond bank appear to be of moderate and satisfactory credit quality, though the majority of loans are attributable to entities not rated by Moody's. Concentration of the five largest borrowers is moderate at about 35% of total loans outstanding, post-issuance, and concentration is somewhat mitigated by four out of those five largest borrowers pledging unlimited ad valorem property taxes for repayment of their loans.

## WHAT COULD MAKE THE RATING GO UP

- Significantly reduced borrowing amounts and borrower concentration
- Sustainable strengthening of coverage levels by state sales tax revenues

## WHAT COULD MAKE THE RATING GO DOWN

- Significant, additional leveraging of state sales tax revenues
- Increased concentration of largest borrowers

## KEY STATISTICS

Number of outstanding Authority loans: 76

Total amount of loans outstanding, post-issuance: \$406.8 million

Borrower concentration: 35% for five largest participants

Coverage of peak bond bank debt service (2020), by fiscal 2013 sales tax revenues: 37.0 times

Coverage of peak bond bank and school bond guaranty debt service (2015), by fiscal 2013 sales tax revenues: 10.6 times

The principal methodologies used in this rating were US Public Finance Special Tax Methodology published in January 2014 and State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

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